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TOWARDS IMPROVING THE PERFORMACE OF MICROINSURANCE SECTOR IN INDIA

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Abstract: *Microinsurance (MI) is a policy to cover up low income people against perils. It is a mechanism to protect poor people against risk in exchange for insurance premium payments tailored to their needs, income, and level of risk. Microinsurance is recognized as a useful tool in economic development and a safety tool for many low income people who do not have access to adequate risk-management tools. In India, the Micro Insurance Regulations, 2005 of the Insurance Regulatory and Development Authority (IRDA 2005) defines a microinsurance policy as a general or life insurance policy with a sum assured of Rs. 50,000 or less. The new revised IRDA (2015) microinsurance regulations increased limits for life Rs. 200,000 (approx. USD 3,100), for non-life Rs. 100,000 (approx. USD 1,560) and for group health Rs. 250,000 (approx. USD 3,900). The main objective of this paper is to study the performance of microinsurance segment in India for Individual segment and Group segment in terms of the number of policies sold in India by Life Insurance Corporation of India (LIC), a public sector giant in India. Though the number of MI agents increased steeply in the recent years, it was not reflected in the performance of microinsurance sector in terms of the premium earned, the number of policies sold, and the number of lives covered. The declining performance of the LIC and private players in expanding the microinsurance sector indicates the need to explore other alternate distribution channels.*

Keywords: *Microinsurance, IRDA, group microinsurance, distribution, LIC.*

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1. INTRODUCTION

Microinsurance (MI) is a term increasingly used to refer to insurance characterised by low premium and low caps or low coverage limits, sold as part of a typical risk-pooling and marketing arrangement, and designed to service low-income people and businesses not served by typical social or commercial insurance schemes. A microinsurance scheme involves the institutions or set of institutions implementing it. Microinsurance is recognized as a useful tool in economic development. It will benefit many low-income people as they do not have access to adequate risk management tools, they are vulnerable to fall back into poverty in times of hardship, for example when the breadwinner of the family dies, or when high hospital bills force families to take out loans with high interest rates (Dercon Stefan 2005). It is estimated that there are some 500 million microinsurance clients are there in the developing world. About 70% of microinsurance schemes are operated in Asia, for historical reasons, schemes have been concentrated in India and West Africa (Dror, D and Piesse, D 2014).

In India, the Insurance Regulatory and Development Authority (IRDA) has created a special category of insurance policies called microinsurance policies to promote insurance coverage among economically vulnerable sections of society. The IRDA Micro Insurance Regulations, 2005, defines a microinsurance policy as a general or life insurance policy with a sum assured of Rs. 50,000 or less. A general microinsurance product is any health insurance contract, any contract covering belongings such as hut, livestock, tools or instruments or any personal accident contract. It can be on an individual or group basis.

In other words, a life microinsurance product is a term insurance contract with or without return of premium, any endowment insurance contract or a health insurance contract. It can be with or without an accident benefit rider and either on an individual or group basis. There is flexibility in the regulations for insurers to offer composite covers or package products that include life and general insurance covers together (IRDA 2005).

2. NEW REGULATIONS OF IRDA

On 13th March 2015, the IRDA of India introduced the Revised Microinsurance Regulations (2015) which superseded the existing regulations introduced in 2005. Accordingly, the insurers should withdraw those existing microinsurance products which do not meet the stipulations of the New Regulations by January 2016. The New Regulations made a number of important amendments with regard to the guidance on product development, adjusting the risk coverage levels, permitting more entities to distribute microinsurance products, and the training of microinsurance agents and their specified personnel. It further introduced a change in the existing compliance norms for insurance companies which had been established under the Rural and Social Sector Obligations (2002).

In connection to training, the New Regulations specified a mandatory training period of 25 hours for individuals employed as microinsurance agents. Individuals selling non-life products to micro and small enterprises now need to undergo an additional 25 hours training. In addition, every microinsurance agent or sales person needs to undergo refresher training for half of the specified mandatory training time at the end of three years. In terms of risk coverage levels, the New Regulations increased the maximum limits across previously specified risk coverage levels. The earlier limits ranged between Rs. 5,000 (approx. USD 78) and Rs. 50,000 (approx. USD 780) depending on the type of product. The new limits are set as follows: for life Rs. 200,000 (approx. USD 3,100), for non-life Rs. 100,000 (approx. USD 1,560) and for group health Rs. 250,000 (approx. USD 3,900). This should enable insurers to target consumers across the lower middle income segment, which remains presently largely uninsured on account of the unattractive or low coverage limits and poor access.

The New Regulations also introduced a new product category, Micro Variable Life Insurance Products, a hybrid insurance solution comprising of systematic contributions with term insurance cover. This product has a lock-in period of five years during which policy surrenders are not allowed, but partial withdrawals may be permitted. Lastly, the New Regulations no longer recognizes the policies sourced as part of social security schemes as microinsurance, and prohibits insurance companies from including them as part of their reporting on their rural and social sector mandatory targets.

Therefore, microinsurance is a powerful risk-management tool that facilitates low-income households' transition out of poverty. It refers to affordable insurance policies that cater to specific risks faced by poor households. Such risks include shocks to life, health, agriculture, livestock and small businesses among others. The microinsurance sector has expanded exponentially in the last few years to 135 million individuals insured in 2009 worldwide from 78 million in 2006 (Ramasubramanian 2013).

3. REVIEW OF LITERATURE

Although a multichannel strategy is better suited for the Indian life insurance market, it is important to keep in mind that this market is really a conglomeration of multiple markets. Each of the markets within this conglomeration requires a different approach. Apart from geographical spread, the socio-cultural and economic segmentation of the market is very wide, exhibiting different traits and needs (Lakshmikutty and Baskar 2003).

It is a mechanism to protect poor people against risk such as accident, illness, death in the family, natural disasters, etc. in exchange for insurance premium payments tailored to their needs, income, and level of risk (ILO's Microinsurance Innovation Facility 2008).

Microinsurance is the protection of low-income people (those living on between approximately $1 and $4 per day (Allen & Overy LLP 2012). The target population typically consists of persons ignored by mainstream commercial and social insurance schemes, as well as persons who have not previously had access to appropriate insurance products (Wikipedia.org).

Gyanendra Singh and Jyoti Kumar (2013) in their study briefly discussed the status of microinsurance business in India in terms of individual policies and group policies sold by the Life Insurance Corporation of India (LIC) and private players in India.

Microinsurance is proved to be an important component of the insurance business in Latin America and the Caribbean (LAC), bringing in almost USD 830 million in premiums, covering nearly 50 million people, and resulting in estimated pre-tax profits of about USD 230 million across the region in 2013. It is growing significantly faster than the traditional insurance market in LAC, though from a lower base, microinsurance will expand its importance in the coming years, not only in this region but across the globe (Michael McCord and Katie Biese 2015).

Though about 263 million people are covered by microinsurance worldwide, the microinsurance sector is considered still at nascent stage. The problems and risks facing low-income populations are vast and complex. Offering microinsurance to these segments brings with it all the complexities of their daily life which need first to be understood and then addressed by the microinsurance stakeholders. Such complexities include their education levels, household budgeting, behavioral economics, choices and priorities, and unfavourable infrastructure. These barriers change from community to community, from region to region and are often vastly different to those faced by the more traditionally served clients in developed insurance markets (Marco A. Rossi 2015).

4. OBJECTIVES AND METHODOLOGY

The main objective of this paper is to study the performance of microinsurance segment in India for Individual segment and Group segment in terms of the number of policies sold, premium earned, and lives covered for the public sector giant LIC vis-à-vis the private players in recent years.

The study relied upon the data collected from secondary sources. The Annual Reports of LIC and the Annual Reports of the IRDA constitute the major sources of secondary data. Other sources of secondary data include *Insurance Chronicle* journal published by the ICFAI University, *Insurance Times*, e-resources, web sites, e-books and journals, reports from the Insurance Institute of India, LIC house magazines, business magazines and newspapers.

5. RESULTS AND DISCUSSION

Global opportunities and challenges of microinsurance distribution

The most attractive and relevant opportunity for microinsurance is the expansion of the branchless banking network. These networks have retail presence all across the operating countries, thus enabling mass level penetration. The key challenges can be classified into three major categories: challenges related to the target market, challenges associated with commercial distribution, and regulatory challenges. Customer awareness and literacy form the primary challenge as the majority of the population is unaware of the need for insurance (Khalid Qureshi, Muhammad 2015). Some years ago, in Africa, MicroEnsure tried to use churches as a distributor as the Anglican Church was trusted by low income communities, with tens of millions of members in Africa. Interestingly, the church was trusted even by those who followed a different or no religion. The products were launched in Tanzania in 2010 that would be sold at the church with premiums collected weekly, but soon hit with problems. There was a significant tension between the parish priest and the product, as the priest relied on money provided during the service to pay for his basic needs. So when the money was diverted to pay for insurance, the priest struggled to collect enough money to buy food or educate his children. The priest, therefore, discouraged his community from purchasing insurance (Leftley, Richard 2015).

According to Dror D and Piesse D (2014), the success of microinsurance is based on the three guiding principles of outreach, sustainability and proving benefits for all. In order to achieve these, it is necessary to increase the penetration level and a combination of regulation, technology and risk management.

Distribution of Microinsurance in India

Way back in 2006 more than 90 per cent of Indian population does not enjoy social protection of any kind. Both government and civil society actors, including charitable hospitals, trade unions, and community-based organisations (CBOs), apart from Micro Finance Institutions (MFIs), have tried to make a dent on this huge deficit in recent years. The movement gained momentum as the insurance regulator IRDA placed certain social obligation on the new private insurance companies (Ghate, Prabhu 2006).

The microinsurance portfolio has been making steady progress in recent times in India. More life insurers have commenced their MI operations and many new products have been launched in recent times. The distribution infrastructure has also been considerably strengthened and the new business has shown a decent growth, though the volumes are still small.

As shown in Table 1, in 2008-09, LIC contributed most of the business procured in the country in this portfolio by garnering Rs. 3118 lakh of premiums from 15.41 lakh individual lives. The private sector could garner only Rs.537.81 lakh of premiums by micro insuring 6.10 lakh policies. In respect of Group microinsurance, LIC attracted Rs.17,268 lakh of premiums under nearly 1.10 crore lives. The private sector, on the other hand, procured only Rs.3326 lakh of premium by micro insuring 14.98 lakh lives under Group insurance. Overall, the MI business in the country was procured largely under the group portfolio. In 2008-09, the total premium collected from individuals by the insurance industry was Rs. 3656 lakh of premium out of 21.52 lakh of policies. The Group business amounted to Rs. 20,595 lakh of premium by micro insuring 1.25 crore lives. While LIC had offered over 6883 schemes under the Group portfolio, the private sector had offered only 14 schemes during the period.

In 2009-10, out of total Group microinsurance of Rs. 24,341 lakh of premium, LIC contributed Rs. 22,869 lakh of premium by covering 1.49 crore lives. The private sector had earned only Rs.1472 lakhs of premium by covering 18.95 lakh lives. In case of individual microinsurance, the industry earned a total premium of Rs.15,822 lakh by covering 29.83 lakh policies during the period. Again LIC had earned a major chunk of premium, that is, Rs.14982 lakhs of premium by insuring 19.85 lakh policies, whereas the private sector earned only Rs. 839 lakh of premium by covering 9.98 lakh policies. While LIC had offered 5190 schemes under the Group portfolio, the private sector had offered only 17 schemes during the period.

During 2013-14, while the individual new business premium under the microinsurance segment stood at Rs. 95.65 crore for 27.67 lakh new policies, the Group business premium amounted to Rs.141.77 crore covering 1.32 crore lives. LIC contributed to a significant component of the business procured in this portfolio by garnering Rs. 86.36 crore of individual new business premium under 22.06 lakh policies and Rs.125.81 crore of Group premium covering 1.19 crore lives (IRDA Annual Report 2013-14). The overall trends indicate the declining performance of Indian life insurance sector in both Individual microinsurance segment and Group microinsurance segment in 2013-14 period compared to 2009-10 period, in terms of the premium earned, the number of policies sold, and the number of lives covered (Table 1).The decline in LIC's performance is highly significant in all parameters, except in the number of policies sold in Individual microinsurance segment.

Table 1

Number of Individual and Group MI Policies in India in Select Years (Premium in Rs. lakh)

Year	Insurer	Individual		Group		
		Policies	Premium	Schemes	Lives covered	Premium
2008-09	LIC	15,41,218	3118.74	6883	1,10,52,815	17268.54
	Private	6 ,10,851	537.81	14	14,98,994	3326.80
	Total	21,52,069	3656.55	6897	1,25,51,809	20595.34
2009-10	LIC	19,85,145	14982.51	5190	1,49,46,927	22869.72
	Private	9,98,809	839.78	17	18,95,143	1472.09
	Total	29,83,954	15822.29	5207	1,68,42,070	24,341.81
2013-14	LIC	22,05,820	8,635.77	5,292	1,18,87,303	12,581.45
	Private	5,61,339	929.29	164	12,91,741	1,595.23
	Total	27,67,159	9,565.06	5,456	1,31,79,044	14,176.68

Source: Compiled from *IRDA Annual Reports, 2008-09, 2009-10 and 2013-14.*

Note: New business premium includes first year premium and single premium.

In case of non-life business, there are a number of products offered (e.g. Janata Personal Accident Policy, Gramin Personal Accident Policy, Cattle/Livestock insurance, etc.) by the non-life insurance companies targeting the lower income segment (IRDA Annual Report 2013-14). In furthering efforts of spreading security, particularly to the less privileged sections of our society, LIC had introduced Jeevan Madhur Plan in September, 2006 and another product, Jeevan Mangal, a term assurance product in September, 2009. These policies have been sold by LIC through a distribution channel comprising of Non-government Organisations (NGOs), Self-help Groups (SHGs), Microfinance Institutions (MFIs), non-profit associations, corporate agents, brokers, and non-profit societies including companies registered under Section 25 of the Companies Act and business correspondents for banks and government agencies who have been appointed as MI agents by LIC. The MI vertical channel has a total strength of 7,906 microinsurance agents with 53,847 specified persons trained by LIC as on 31st March 2010 (LIC Annual Report 2009-2010).

The Microinsurance Regulations of India have allowed the MFIs, SHGs and NGOs to act as MI agents. The government is also encouraging the insurers to use other modes of micro insurance distribution like the Post Office. There are some institutions like Primary Agricultural Cooperative Societies (and other cooperative societies like milk, handlooms, tribal welfare, etc.), the Regional Rural Banks and the village panchayats which are potential distribution channels for microinsurance (Ramesh D 2008). With respect to distribution, the New Regulations of IRDA, as amended in 2015, enlarges the current range of institutional intermediaries to include the Reserve Bank of India (RBI) regulated Non-banking Financial Companies (NBFCs), the District Cooperative Banks, Regional Rural Banks and Urban Co-operative Banks, Primary Agricultural Cooperative Societies registered under the Cooperative Societies Act, and Business Correspondents who have been appointed in accordance with the RBI Financial Inclusion Guidelines.

As shown in the Table 2, the number of MI agents in India have been raising very fast during the period 2007-14. Their number increased by more than 15 times from 1311 in 2007 to 20,057 in 2014. In private sector, the number of MI agents increased by 21 times from a mere 79 in 2007 to 1656 in 2014. In case of the public sector giant, LIC, their number increased by nearly 15 times from 1232 in 2007 to 18,401 in 2014.

Table 2

Microinsurance Agents of Life Insurers from 2007 to 2014

	As on 1st April					
Insurer	2007	2008	2009	2010	2013	2014
Private	79	418	603	770	1824	1656
LIC	1232	4166	6647	7906	15228	18401
Industry Total	1311	4584	7250	8676	17052	20057

Source: Compiled from *IRDA Annual Reports*.

The number of MI agents at the end of March 2014 stood at 20,057; of which an overwhelming number of 18,401 agents (91%) belonged to LIC and the remaining represented the private sector companies. Thirteen life insurers had 21 microinsurance products as at 31March 2014 (IRDA Annual Report 2013-14). It may be inferred that though the number of MI agents increased steeply in the recent years, it was not reflected in the performance of microinsurance sector, as shown in Table 1, in terms of the premium earned, the number of policies sold, and the number of lives covered. This indicates the need and scope to improve the productivity of MI agents to expand the size of the market for micro insurance.

6. CONCLUSIONS

There is ample scope to promote microinsurance in urban as well as rural areas. The Microinsurance Regulations of India, as noted, allowed the MFIs, SHGs and NGOs to act as MI agents. The government is also encouraging the companies to utilize other modes of distribution such as the post office, the cooperative societies, the RRBs and the village Panchayats. Further, the declining performance of the LIC and private players in expanding the microinsurance sector indicates the need to explore other alternate distribution channels. Instead of evolving the uniform strategy to cater to the needs of the marginalized sections of the society across the vast nation, the market leader LIC, in collaboration with the respective state governments, should evolve a tailor made strategy to capitalize the local needs, cultural ethos, and cooperative spirit to promote microinsurance products. A series of awareness campaigns may be jointly carried out about the benefits of these products. It is high time for the public sector giant LIC and the governments to develop MI products which would address the needs of social security of the underprivileged. Microinsurance being a low price-high volume business, its success and sustainability depends mainly on keeping the transaction costs down.

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